Michael Stutchbury on progress

Posted on 29 August 2011

Michael Stutchbury, the Economics Editor of The Australian, shares what's important to him for Australia's progress.

Australian Progress

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Australia has become one of the world's richest nations. For the first time in a century or so, the average Australian earns more than the average American. Our soaring dollar is financing our biggest ever overseas holiday boom. And we've been building up to the biggest mining and energy boom in our history. We dodged the worst of the global financial crisis that is imposing hard times in America, Britain and Europe. And we're on the doorstep of the world's most dynamic economic zone. The numbers don't lie: we are truly the Lucky Country.

Australians know we've made huge economic gains since the 1980s, when Singapore's Lee Kuan Yew chided us for becoming the poor white trash of Asia and Paul Keating warned we risked becoming a banana republic.

That's been due first to our own efforts in opening up the economy to the opportunities of the global marketplace, removing barriers to competition and better rewarding enterprise and effort. The reforms of the 1980s and 1990s overturned generations of inward-looking economic policies and regulations that sapped the economy's efficiency and pushed Australia down the international league tables of living standards. Reversing these policies unleased a surge of productivity that allowed Australia to start climbing back up these league tables. That was genuine progress.

A few years into the 21st century, the source of our economic gains suddenly changed. In effect, it started raining money. The modern rise of China reached a sudden tipping point that stretched global markets supplying the inputs into its economic development. Importantly for Australia, these inputs included coal and, in particular, iron ore. Over two centuries ago, Australia was settled by the human refuse of the world's first industrial revolution. Now we have become the main supplier to the blast furnaces of the biggest industrial revolution the world has seen. And our biggest customer was prepared to pay three or four times more for our iron ore and coal.

What luck! The main statistical measure of our Chinese fortunes used by economists is the terms of trade. This is the price of our exports divided by the price of our imports. Our export prices have been rising because China is paying more for our iron ore and coal. And our import prices have been subdued because China has been pumping out cheap manufacturing items, from shoes and clothing to computers and flat screen TVs.

The result is that, since 2003 or so, our terms of trade have soared to their highest level on record, which traces back to 1870s. The higher price we can get for our exports means we can buy more of what we import from the rest of the world. The boom in export revenue has filtered through the economy via increased mining company profits, corporate tax, government spending, jobs and wages into stronger household incomes. It explains why Australia was alone among developed world economies to be shielded from the global financial crisis. And, now, it has sparked the huge investment boom in supplying mining and energy inputs to China and the rest of Asia. This includes several massive liquefied natural gas projects – each worth more than $15 billion – in Queensland and Western Australia.

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The rise of an enormous Asian middle class and our biggest ever resources investment boom potentially promises to underwrite a generation or two of Australian prosperity. Sure, money isn't everything. But well-managed material prosperity provides jobs, improves social cohesion, reduces crime and other social pathologies and generates the income to spend on education, health, social services and the arts. Material wealth is a pre-condition for any credible measure of national progress.

Yet Australians don't appear as excited by this prospect as economists might expect. Consumers have become as pessimistic about their family finances as during the last recession two decades ago. As they've lost confidence in the future, they are saving more of their incomes than at any time in the past three decades. Big department stores are feeling the pain as shoppers tighten their belts. While the price of clothes and I-pads may be falling, household power bills are delivering a nasty shock. While anything connected to mining is booming, many other parts of the economy are being squeezed. While Australians flock to their cheap overseas holidays, local tourist operators are hurting. And politics has become more divided as one of the richest countries on earth complains about the cost of living.

We need to think about the lessons from this period of great economic progress. First, we may have lost sight of the effort needed to sustain our material prosperity. When the China boom started raining money, Australia appeared to slack off from the sort of policy reforms that began to reverse our previous decline. The productivity boom of the 1990s itself reversed in the 2000s. This is worrying because, in the long run, our economic progress depends on our ability to keep on squeezing out more from less. The reasons for our productivity slump may be complex, and may partly naturally reverse when our mining investment boom starts churning out more export volumes. But we need to be more aware that, for nearly a decade, our prosperity has been delivered by the willingness of China to pay much more for our iron ore and coal. This may not last.

Second, we've spent too much of our China bounty too early. Our export bonanza came with a rush as China's booming demand pressed up against the capacity of the world's mines to produce more. With inflexible supply, prices shot up. It is too easy to imagine that it will keep on raining money. The excess optimism encouraged people to borrow too much to bid up prices too high for houses, particularly in the boom states of Queensland and Western Australia. Governments spent up big and handed out year after year of tax cuts. Now we realise that, as global mining capacity expands, our export prices inevitably will come off their peaks. So housing prices are easing back, we're saving more and paying off our debts. And governments are tightening their belts to get their budgets back into the black.

Third, progress is often disruptive and even uncomfortable because it involves change. The rise of China itself was part of a chain of events that precipitated the global financial crisis. It is as if the tectonic plates of the global economy are suddenly shifting, forcing western economies to adjust to Asia's growing prosperity.
That's a good thing, if only because it is lifting hundreds of millions of people into the sort of standard of living that Australians take for granted. But it poses challenges, even for a country which should be a winner from the process, such as Australia.

That's because our economy is being forced to restructure around the new opportunities provided by our China boom. As mining becomes a bigger part of the economy, other parts of the economy will have to shrink, at least in relative terms. The strong dollar which helps us take our overseas holiday helps generate this structural adjustment by making some industries less competitive on world markets.

So jobs will be lost in industries and regions in the slow lane of the two-speed economy. But they will be overtaken by job gains elsewhere. Some of these will be in distant mining sites that will require Australians to move. But more jobs will be in areas that we often don't identify with mining sites – including service sector professionals such as engineers, architects, IT specialists, lawyers and accountants.

Restructuring the economy toward its most profitable pursuits will make Australians richer. And richer Australians will spend more on all sorts of services, from entertainment and travel to better health care in their old age and educating their kids at the world's top schools. To make the most of these opportunities, however, we need to better understand, better measure and be more open to them.

August 2011

The views expressed in this opinion piece are the personal views of the individuals concerned and they do not represent the views of the ABS. The intention of this opinion piece is to generate debate and discussion about how Australians view progress. These views will assist the ABS in measuring progress in the future. The ABS continues to be independent and objective.

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Comments

#1 William Young
31/08/2011 6:51:20 AM Michael Stutchbury on progress

I think there are some similarities between Michael's comments and those that Treasury Head Martin Parkinson made in his inaugural speech from last week entitled "Sustainable Wellbeing - An Economic Future for Australia."

As a good economist, Parkinson appreciates that the wealth of future generations will be generated from the stock of capital that they inherit and then build upon. What is interesting is that Parkinson is careful to point out that there are different types of capital - Physical, Human, Environmental, Social - and that all are necessary for sustainable well being (p5-6). Many of us would consider that a 'hard-nosed' Secretary of Treasury would be interested only in Physical, and perhaps Human, capital. It is refreshing and appropriate to see such a broad and appropriate definition being applied.

I've heard the adage "if you can't measure it, you can't manage it" many times. Perhaps the MAP indicators can be an important input into Treasury's work to manage the stocks of these various types of capital for future generations?

Perhaps MAP can assist with measuring the elements of Treasury's Wellbeing Framework (p27-29)?

Could MAP eventually provide data to allow the calculation of elasticity measures to be used in trade off analysis between the different dimensions of wellbeing?

For full text of the speech, see:

{ Link }

#2 Imogen (MAP team)
1/09/2011 11:47:34 AM Michael Stutchbury on progress

Thank you for your response William and the great points you make. There are certainly synergies between the Treasury work and MAP. Recognising this, Treasury is represented on the MAP Expert Reference Group.

There are also synergies between MAP and many other recent government and non-government initiatives. We are working to track these, and where possible coordinate with them, and Government engagement is part of our current consultation. The "Similar Projects" tab on the Blog provides maps of related projects (including links to these). A convergence between related initiatives in this field may be inevitable. For the time being, we are encouraging cohesion and use of the broad MAP framework where appropriate.

Re. quantifying trade-offs between areas of wellbeing, you may be interested in the section addressing trade-offs in the MAP2010 Feature Article . For information: the Monash Sustainability Institute (MSI) at Monash University are one organisation looking at ways of indicating trade-off margins.

#3 Rex Simmons
22/09/2011 9:44:04 AM Michael Stutchbury on progress

Michael Stutchbury's contribution lacks any broad vision for Australia's future, and is predicably focused on short term wealth creation but not longer term quality-of-life. I think Dick Smith's words contain much more to think about for the bright young people who will be tomorrow's decision makers.

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